

VZCZCXRO8643
RR RUEHGR
DE RUEHBE #0235/01 1291422
ZNR UUUUU ZZH
R 081422Z MAY 08
FM AMEMBASSY BELMOPAN
TO RUEHC/SECSTATE WASHDC 1271
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUCNCOM/EC CARICOM COLLECTIVE

UNCLAS SECTION 01 OF 02 BELMOPAN 000235

SIPDIS

DEPT FOR EEB/TPP/ABT/ATP (JANET SPECK), WHA/CEN (ROIS BEAL)

E.O. 12958: N/A

TAGS: [EAGR](#) [EAID](#) [ETRD](#) [ECON](#) [PGOV](#) [PREL](#) [BH](#)

SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES - BELIZE

REF: State 039410

SUMMARY

1. Belize is an import dependent country and the impact of increasing global prices for commodities and high energy costs directly add upward pricing pressure to the economy. The inflation rate reached a ten-year record high of 4.5% in the first quarter of 2008. Dairy products, chicken, corn, and flour reflect the most notable price increases and have demonstrated shifting markets with associated price changes. Increasing energy costs are often cited as the key contributing factor. The Government of Belize (GoB) has responded by laying out several proposals including a windfall profits tax on the oil industry to finance subsidies for commodity imports. Rising commodity prices in neighboring markets are putting pressure on the domestic price controls Belize imposes on commodities. Continued rising food prices will quickly and directly add inflationary pressure to the local economy as Belize is a net importer of many agricultural products.

SUPPLY/DEMAND SITUATION

2. Total agricultural imports into Belize have averaged an increase of 5.0% each year over the past five years and recorded a local Consumer Price Index inflation rate in the first quarter of 2008 of 4.5% - the highest in ten years.

3. Dairy product imports such as cheese and powdered milk, have increased by 4.5% over the past three years and reflect a 52% price rise. The price of chicken has also been steadily increasing as producers blame higher fuel and feed costs. Within the past six months there has been a 24% increase in price resulting in only a modest decline in consumption. Producers have also diversified into the processed meat market to cover costs and maintain profits.

4. The past year has seen a shift in the market for corn. This commodity had been sufficiently produced for local consumption. However, as global corn price increased, domestic producers began selling corn to regional markets. This created a shortage on the local market and in 2007, for the first time, Belize imported corn. Officials note that local markets are showing a 263% increase in the price of corn over the past three years and tortilla, a common local food product made from corn, recorded a 20% price rise late last year.

5. Flour is also being affected by its key imported input -- wheat. The price of flour increased earlier this year in response to rising wheat costs. Flour is still produced in Belize primarily for domestic consumption resulting from limited processing capabilities.

6. Local reports indicate that some merchants are hoarding supplies to ensure maximum prices when supplies fall short and others are smuggling products across borders in order to obtain higher prices.

Rising energy prices have also had a major impact on food prices.

POLITICAL/ECONOMIC EFFECTS

¶17. (U) The most straining economic issue for Belize has been its overwhelming foreign debt; a massive debt restructuring in 2007 saved Belize from a near-term crisis. As of September 2007, total external debt stood at 84.1% of GDP. The Belize economy was previously able to absorb the impact on the current account as higher oil receipts neutralized higher import costs. However, the oil industry here is still relatively new and the GoB is not yet certain how to deal with complex industry-related issues. Rising external food and fuel prices are contributing to the record inflation rate since Belize is heavily import dependent.

¶18. Public debates relating to rising food prices have become more frequent and food prices have become a daily topic on the radio and in local newspapers. The GoB has been pressured to subsidize rising food costs by increasing taxes on the oil industry reducing the government tax at the pump, and utilizing output from the local oil producers to supply the local market, thereby lessening the impact of increased energy prices. Despite the increased prices on staples, there have so far been no reported cases of public protests or unrest, nor have there been reports of increases in the theft of major commodities.

ENVIRONMENTAL IMPACT MARGINAL

BELMOPAN 00000235 002 OF 002

¶19. Though the impact on the environment has been marginal, tensions between environmental groups and the electricity company as it expands its renewable energy projects - hydro power - to meet rising fuel costs are increasing.

POST PROGRAMS

¶10. Rising food prices have not impacted post programs.

GOB RESPONDS TO RISING FOOD PRICES

¶11. The GoB raised the price ceiling on one commodity - flour - by 40% to bridge the gap between the local price and the higher price in neighboring countries. The difference had encouraged the export of flour. The Government has also introduced a toll free consumer hotline as a direct result of consumer complaints about price gouging (between 25% to 40%) by merchants.

¶12. Government officials are also discussing various ideas such as providing subsidies to producers, reducing tariffs on agricultural inputs, and reducing taxes on other goods/services to ease increases in the costs of agricultural products. Any of these would have a negative impact on government finances.

¶13. The GoB recently announced a plan to introduce a new windfall profit tax on the country's oil producers benefiting from high oil prices. Inflows would be used to subsidize key import commodities to help mitigate current price increases.

POLICY/PROGRAMMING RECOMMENDATIONS

¶14. Belize will face substantial challenges in trying to mitigate the pressure of high food prices. As a net importer of many agricultural goods, Belize directly suffers from worldwide price increases. Encouraging the expansion of domestic agricultural production may help. Consideration of the following

policy/programming alternatives may also assist Belize in the near term.

a) A micro-lending program designed for small farmers would assist the most vulnerable segment of society directly without adding to the overwhelming outstanding debt on a national level.

b) Belize does not have the capacity to store food inventory. Improvement of storage facilities and distribution could help ensure availability in the event of shortages and price fluctuations.

c) Belize could use assistance in developing a more stable regulatory environment to prevent collusion and price gouging amongst suppliers.

DIETER